

Transcript of Opening Statement of Chairman Kent Conrad
Hearing on Economic and Budget Update
July 12, 2001

We want to welcome OMB Director Mr. Daniels. Thank you very much for being here. As we discussed we wanted to reciprocate for your kind gift to me last time you were here. You remember the Director at the hearing on the budget brought me a wonderful pie and he had it divided as to how we might use the surplus and it was a terrific pie -- an apple pie my favorite -- and went over very well with my staff. And we thought we should reciprocate this morning. We have a pie. It is somewhat smaller. It represents the shrinking surplus. So Mr. Director, I'm going to send this pie down to you. I'm told it is actually a rather good pie. I hope your staff enjoys it and I hope it's taken in the good humor that it's intended.

We are grateful that you took time out of your busy schedule to be here today. We wanted to get your views on the current budget situation because as you know obviously we're faced with changing circumstances. And we're faced with a series of decisions that still must be made this year. And so the best information that is possible is important for us. For example, we've got a request from the administration for a substantial increase in defense spending. The question arises, 'How do we pay for that?' And we already see warning signs that the budget is in some difficulty.

This chart looks at the year 2001. It starts with the surplus, takes out the trust funds of Social Security and Medicare, takes out the tax cut, takes out the budget resolution policies and the interest associated with that, and we show a \$6 billion margin for 2001 before any reduction in revenue as a result of the economic slowdown. Mr. Lindsey, the chief economic advisor to the President, indicated a kind of a back-of-the-envelope calculation that we could see as much as a \$56 billion reduction this year from an earlier baseline. When we adjust that for the more recent baseline, that would mean about a \$23 billion reduction, somewhere in that range, which would mean we would be in deficit this year using the trust fund of Medicare.

Even more serious I think is looking ahead to next year. Next year, we can see, based on testimony provided to this committee by three eminent economists, their anticipation of reduced revenue next year because of the economic slowdown this year that we could be using all of the Medicare Trust Fund next year, and even possibly going into the Social Security Trust Fund by a small margin. It strikes me as though we have questions to ask and answer. And I want to emphasize these numbers are based on just three factors: spending in the budget resolution that has passed; tax cut; and, reduced revenue as a result of the economic downturn. This is not a problem caused by increased spending because no appropriations bill has yet been passed and signed into law. The figures I am using assume only the spending that is provided for in the budget resolution that was written and passed by our Republican colleagues, by and large. And includes the effects of the tax cut, and includes reduced revenues as a result of the economic slowdown.

Some have suggested that by reporting these shortfalls I must be advocating a tax increase this

year. That is not the case. I don't think that would be wise policy. That is not my record. I supported a substantial fiscal stimulus of \$60 billion. I did not support shifting \$33 billion of corporate revenues by two weeks to make 2002 look better. And that's part of the reason we have a problem in 2001 -- that shift of corporate revenues by two weeks to try to make 2002 look better. The issue is not advocating tax increases at a time of economic slowdown.

But looking ahead at 2002 and beyond I believe the clear question is, 'Do we use trust fund money from Social Security and Medicare to fund other programs of the federal government?' Remember for 2002 and beyond, the Administration is forecasting strong economic growth. You're not forecasting -- and you're not alone in this, Congressional Budget Office is not forecasting economic slowdown next year, the blue chip forecasters are not, all are projecting fairly strong economic growth. But, we still see deficits in each of the next four years if we are not using trust fund money from Social Security and Medicare. Perhaps even more serious is that we see these shortfalls before the Administration's request for substantial increases in defense spending, before money for natural disasters -- and we've just had a rather serious natural disaster in West Virginia -- before new money for education and the Senate has passed almost unanimously an authorization bill for substantial increases for education. This is before the extension of popular expiring tax provisions, for example the research and development tax credit. And it's before the fix of the alternative minimum tax when we all know the number of American taxpayers subject to the AMT is going to increase dramatically.

So I repeat. I think this raises the serious question of how we finance the federal government going forward. Do we use Social Security and Medicare Trust Funds to fund other programs especially at a time of economic growth? I think that is especially important given the fact that the baby boom generation begins retiring in 11 years. And we all know at that time, as this chart from the Social Security Administration shows, that the surpluses that we now enjoy in the trust funds of Social Security and Medicare turn to significant deficits in the next decade.

I want to conclude by saying some now say that the Medicare Trust Fund surplus does not exist. I would refer to them to legislation that every Republican Senator voted for just four months ago. Just four months ago, every single Republican Senator voted for a measure that had this statement of findings, and the findings were as follows:

- (1) the Balanced Budget Act of 1997 and strong economic growth have ended decades of deficit spending;
- (2) the Government is able to meet its current obligations without using the Social Security and Medicare surpluses;
- (3) fiscal pressures will mount as an aging population increases the Government's obligations to provide retirement income and health services;
- (4) Social Security and Medicare hospital insurance surpluses should be used to reduce the debt held by the public until legislation is enacted that reforms Social Security and Medicare;
- (5) preserving the Social Security and Medicare hospital insurance surpluses would restore confidence in the long-term financial integrity of Social Security and Medicare; and

(6) strengthening the Government's fiscal position through debt reduction would increase national savings, promote economic growth, and reduce interest payments.

I agree with all of those assertions and I'm a little surprised that people, in four short months, have changed their position and now say there are no surpluses. We hear repeatedly there are no Medicare surpluses. I just had a debate on the floor and the assertion was made again that there are no Medicare surpluses. OMB's own reports show that Medicare Part A is in significant surplus and Medicare Part B is in rough balance. And CBO reports demonstrate the same thing. I hope we're not debating whether or not there are Medicare Trust Fund surpluses or not.

Let me now turn to my very able colleague, the former chairman of this committee, Senator Domenici for his statement.

Let me conclude as I began. The real question before us and the one we have to grapple with together is, 'What is the appropriate means of financing federal programs going forward? Do we want to be using trust fund monies at a time of economic growth?' I think that is the fundamental question before us.

Senator Domenici, welcome and it is always good to have you here.